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Postal Service Operations

Statement of
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Government Business
Operations Issues

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Subcommittee on Postal Personnel and
Modernization
Committee on Post Office and Civil Service
House of Representatives

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POSTAL SERVICE OPERATIONS

SUMMARY OF STATEMENT BY
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OPERATIONS ISSUES

In response to numerous requests from congressional committees, GAO has reviewed a variety of Postal Service issues that contribute to postal oversight by Congress.

The Postal Service has taken action in response to GAO recommendations during the past year that addressed the following issues:

-- development of contingency plans to deal with the aftermath of traumatic events such as the shootings at the Edmond, Oklahoma Post Office in 1986.

-- better screening of applicants for employment.

GAO found the Postal Service to be in compliance with the budgetary savings requirements of the Omnibus Budget Reconciliation Act of 1987, and with its policies for coordinating with states and communities affected by the Service's decisions to relocate post offices.

In testimony on deficiencies in the federal budget process and their impact on the Postal Service, GAO did not object to removing the Postal Service Fund from the budget, while expressing a preference for addressing the postal budget problems through restructuring the federal budget on a unified basis.

GAO is currently evaluating compliance with the Omnibus Budget Reconciliation Act in 1989; the Service's process and procedures for acquiring land, the administration of discipline and the workers' compensation program, and the Service's response to labor relations problems in Indianapolis and Oklahoma City.

Other GAO work addresses the status of efforts to improve mail service in Northern Virginia, the history of labor costs in the Service, and the Service's consideration of shifting stamp production from the Bureau of Engraving and Printing to the private sector.

GAO concludes with observations on the Postal Service's agenda of major initiatives, and some of the difficulties that will have to be overcome.

Messrs. Chairmen and Members of the Subcommittees:

I am pleased to be here today to discuss our recent and current work on the Postal Service. I would like to first summarize our current work, then the reports and testimony prepared since our appearance before you last year, and finally address some budget and financial issues.

Virtually all of our work at the Postal Service continues to be in response to congressional requests. These have come from several sources in addition to your own very active Subcommittees. The Service's budget, workforce, dispersion, and integral relationship with rest of the economy are so large and pervasive that how it handles its responsibilities is a major national concern. Its unique independent structure still causes controversy after 20 years. While our work has been and continues to be highly varied, we believe it touches on many of the critical issues facing the Postal Service as it approaches its third decade.

Our current work illustrates this variety. We will be issuing a report later this year on the practices and procedures used to acquire land for new post offices. We have initiated work which looks at the cost estimating system used by the Postal Service to prepare budget estimates for new construction. For construction projects completed during 1988 we will determine how actual construction cost compared with initial estimates. We are also looking at the status of and rationale for the Postal Service's

study proposal to contract half or more of postage stamp production to the private sector as opposed to the Bureau of Engraving and Printing.

In May we expect to issue a report and testify on employee discipline and whether it is administered consistently throughout the Service. We are also reviewing administration of the Postal Service workers' compensation program, and the Service's response to labor relations problems in Indianapolis and Oklahoma City. We are also preparing a report on the status of the Service's efforts to improve mail service in Northern Virginia. We recently began survey work which looks historically at Postal Service labor costs, and are also reviewing the Service's compliance in fiscal year 1989 with the budgetary savings requirements of the Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203). As you know, the Reconciliation Act placed several restrictions and requirements on Postal Service spending which I will come back to in a moment.

COMPLETED REPORTS AND TESTIMONY

In June 1988, we reported on how the Postal Service dealt with the tragedy in Edmond, Oklahoma, where, in August 1986, a postal employee shot to death 14 of his co-workers and wounded 6 others before taking his own life. The Postal Service had to quickly improvise solutions to numerous problems, including assisting

victims' families in obtaining entitled compensation and dealing with the traumatic effects on employees, the victims' families, and operations of the Edmond Post Office. Some of the families felt that the Postal Service did not provide them the promised assistance in obtaining their benefits.

We found that the Postal Service organized immediate assistance to the victims' families in preparing and submitting the necessary initial documents to obtain benefits such as life insurance, burial benefits, and unpaid compensation.

Follow-up assistance, however, was less well organized. Unlike many other large public and private sector organizations, the Postal Service did not have preplanned crisis management procedures for managing the aftermath of traumatic events affecting either employees or customers. In line with our recommendations, the Postmaster General directed that contingency plans be developed to deal with similar events in the future.

The Edmond incident raised questions about the adequacy of Postal Service preemployment screening and personnel management practices. Accordingly, we assessed applicant screening and personnel management practices, and evaluated the adequacy of actions taken by the Postal Service to improve the screening of new employees.

While the Service's preemployment screening policy is to check applicants' records with former employers and law enforcement agencies, none of the 15 post offices covered in our report were in full compliance. Of 1,289 newly hired employees, about 63 percent were hired without employment checks with their former employers, and 58 percent were hired without a police check. Reasons for noncompliance included law enforcement agencies being prohibited from releasing criminal history information, employers' concerns over privacy issues or law suits, and no attempt by postal hiring personnel to obtain the necessary information.

In June 1988 we recommended that procedures be established to alert the selecting official when police and prior employment checks had not been done, and that hiring officials be instructed on how to proceed when screening checks from police and prior employers are missing. Subsequently, screening procedures were strengthened in line with our recommendations.

In October, we reported that the Postal Service complied with the fiscal year 1988 operating budget reduction mandate of the Omnibus Budget Reconciliation Act of 1987. It required the Postal Service to reduce operating cost by $160 million and make a corresponding payment to the Federal Employees Health Benefits Fund.

The Postal Service's cost reduction plan for 1988 called for reductions in administrative personnel, travel, training, supplies and services, and research and developments funds; use of less expensive or less frequent mail transportation; efficiencies in mail processing; fewer mail collections; and reductions in customer services, including window service. These initiatives were estimated to save $173.8 million or $13.8 million above the $160 million required.

The cost reduction initiatives produced documented savings in excess of $188 million, putting the Postal Service in compliance, even though its overall costs exceeded budgeted levels.

In June 1988 we testified on the Postal Service budget process and provided our views on the "Postal Reorganization Act Amendments of 1988". This legislation would have made significant changes in the status of the Postal Service Fund, primarily by removing it from the federal budget process and by increasing the Fund's borrowing authority from $10 billion to $30 billion.

GAO has traditionally favored a comprehensive budget. However, because certain deficiencies in the current unified budget structure create special problems for entities such as the Postal Service -- particularly in the context of the Gramm-Rudman-Hollings process -- we did not object to the proposed provisions

for removing the Postal Service Fund from the budget. At the same time we emphasized our preference for addressing the Postal Service budget issue within the context of a unified federal budget on a restructured basis.

Last summer we reviewed the Postal Service's sole-source contract with Perot Systems Corporation and testified in August that the contract was loosely written in some key particulars, such as ownership of management savings ideas developed under the contract.

In February 1989 we reported on how well the Postal Service coordinated with state and local organizations affected by the Service's decisions to relocate post offices. We reviewed a sample of relocated facilities and found that the Postal Service was generally complying with its community coordination policy.

BUDGET REDUCTIONS

I would like now to turn back to the Omnibus Budget Reconciliation Act of 1987 and its impact on the Postal Service.

Capital Budget

The Act significantly reduced the Postal Service's capital investment program in fiscal year 1988. The Service initially

had an approved $2.4 billion capital investment plan for the year under which it was operating through the first quarter. Then in December, the Act imposed a capital commitment limitation of $625 million for the year, thus reducing the plan by $1.8 billion. Postal management was forced to review projects scheduled for contract award in 1988 and allocate funds to the most important.

For 1989, the Act limits capital commitments to $1.995 billion. The Service's budget plan calls for $1.2 billion to be committed to facilities and the remainder to mail processing equipment, vehicles, customer service equipment and postal support equipment. During 1989 the Service expects to fund construction of an estimated 700 post offices nationwide plus several major mail processing facilities. As of February 10, 1989, $464 million of this year's capital budget had been committed.

The Capital Investment Plan for fiscal years 1989-1993 looks to sharply upgrade plant and equipment by committing $12.9 billion towards capital improvements with 52 percent, or $6.7 billion, going into new facility projects and 45 percent, or $5.8 billion, going towards new technology and automation equipment. The plan includes more than 6,200 separate facility projects, the majority involving upkeep or construction of smaller post offices. Plans are to fund many facility projects that were put on hold during 1988 because of the Budget Reconciliation Act. Facilities are prioritized based on their importance to the national mail

processing network, high volume growth, or other factors such as the age and safety of an existing facility.

Funding for capital investments has in recent years come from borrowed funds. The Postal Reorganization Act authorizes the Postal Service to issue and sell debt obligations but not to exceed $10 billion outstanding at any one time, with not more than an increase of $1.5 billion in any one year for capital improvements. As of September 30, 1988, long-term debt borrowing totaled $5.6 billion. Assuming a continuing need to borrow $1.5 billion per year, the Postal Service will reach its authorized limit in fiscal year 1991. If the Service is to meet its capital investment plans beyond 1991 the borrowing cap will need to be raised, or funding will have to be provided from current operations.

Operating Budget

In fiscal year 1989 the Postal Service is required to reduce its operating budget by $270 million and make a similar payment to the Federal Employees Health Benefits Fund. As required, the Postal Service submitted a plan to the oversight committees showing how it expects to achieve the savings. The plan (including a buffer of $18 million for a total of $288 million) calls for a reduction of field administrative hours, travel, and training of $147 million; transportation savings of $29 million;

savings from elimination of certain Sunday operations, $26 million; reduced merit pay increases, $30 million; and savings from deployment of automated and mechanized mail sorting equipment, $56 million. Most of these savings initiatives were begun in fiscal year 1988. We are reviewing the Service's compliance with its plan, and as required by the Act, will issue a final report to the oversight committees by October 31.

While it is to soon to say whether the Postal Service will save the $270 million this year, we are concerned about how to measure some of the savings, particularly those due to the deployment of automated and mechanized mail processing machinery. The Postal Service has for some time had a continuing program to introduce new mail processing equipment in order to improve productivity and service. There is no doubt that over the medium and long run the productivity of mechanized and automated sorting machinery has reduced costs, or, to be more accurate, lessened the increases in costs which have gone up with the increase in mail volume. However, the deployment of specific machines may not reduce personnel costs in the short term, which for purposes of compliance with the Act, means fiscal year 1989. Employee reductions from automation occur gradually through attrition. We are finding it difficult to identify savings that we can attribute to the installation of specific pieces of equipment, as claimed by the Service.

FUTURE AGENDA

As the Postal Service nears its 20th year, the Postmaster General has set an agenda to

-- expand the interval between rate adjustments,
-- provide the best possible service to the American people, and
-- establish a better relationship between labor and management.

The agenda is ambitious and its accomplishment will place severe demands on the management resources of the Postal Service and the leadership abilities of the Postmaster General himself. The objectives are interdependent but also potentially at odds with each other.

For example, lengthening the rate cycle will require sustained cost containment efforts. A systemwide review of all costs was begun in 1988 to identify and act upon 10 to 20 initiatives with potential to save $100 million to $200 million each. This review is ongoing but, based on past experiences, there is no reason to be optimistic about the results. A cost containment effort of $363 million in 1987 failed by 59 percent. To reduce operating expenses by $160 million in 1988 (the amount required by the Omnibus Budget Reconciliation Act), the Service believed that it had to curtail customer services, including window services. The public reaction certainly indicated that the American people did

not believe their service quality expectations were being met. Delivery services, costing $10.7 billion in 1988, continues to increase (by about $1 billion in 1988 over 1987) and is not yet a candidate for significant cost containment initiatives. In addition, additional worksharing and "contracting out" initiatives being studied could impede better relationships between labor and management.

The Postal Reorganization Act of 1970 created a unique entity within the federal government, blurring the traditional differences between the public and private sectors of the economy. The past year has seen the suggestion of alternative structural arrangements for the Service, from privatization initiatives on the one hand to closer adherence to federal practices -- as in procurement and budgetary involvement -- on the other. How well the Postal Service and its employees, both management and labor, succeed in cooperating to meet the public demand for service at a reasonable cost can have far-reaching implications for the way Americans regard experimentation with different forms of organizing public enterprise.

That concludes my prepared statement, Messrs. Chairmen. I would be happy to answer any questions you may have.